GOVERNMENT OF INDIA
SMALL SCALE INDUSTRIES
LOK SABHA

UNSTARRED QUESTION NO:3097
ANSWERED ON:12.03.2003
CLOSURE OF S.S.Is
RAJ NARAIN PASSI

Will the Minister of SMALL SCALE INDUSTRIES be pleased to state:

(a) whether Small Scale Industries are closing due to higher rateof interest and variable penalty charged by the banks and financial institutions on the loans advanced/ financed to the entrepreneurs before 1999-00;

(b) if so, the details thereof;

(c) whether banks/ cooperative institutions are charging 15 to 18 percent on the mortgaged property from the entrepreneurs while the interest rate on fixed deposits has been reduced from 6% to 8%;

(d) if so, the details thereof;

(e) whether the Government have requested the R.B.I. to make auniform policy on the interest/ penalty in the interest of the trade/ industry; and

(f) if not, the reasons therefor?

Answer

MINISTER OF SMALL SCALE INDUSTRIES AND MINISTER OF DEVELOPMENT OF NORTH EASTERN REGION (P. THAKUR)

(a) to (d): Higher cost of credit is one of the various reasons responsible for the closure of Small Scale Industries (SSIs). Asper the Reserve Bank of India (RBI) directives the interest onadvances upto Rs. 2 lakh should not exceed the Prime Lending Rates(PLR) fixed by banks with the approval of their Boards and loans above Rs. 2 lakh it is at the discretion of banks but within the maximum spread over PLR fixed by them. Banksare also free to charge interest below PLR for SSI units having good track record.Banks have also been advised to implement the policy of levying penal rates with discrimination and selectivity and to avoid indiscriminate levy of penal rates.

(e) & (f): As per the Union Budget 2003-04, the Indian Banks`Association is advising all its member banks to adopt an interest rate band of 2 per cent above and below PLR as announced by the State Bank of India.